



### Company Overview

Popular Vehicles and Services Ltd. is a diversified automobile dealership company in India that has a fully integrated business model that caters to the complete life cycle of vehicle ownership, right from the sale of new vehicles, servicing and repairing vehicles, distributing spare parts and accessories, to facilitating sale and exchange of pre-owned vehicles, operating driving schools and facilitating the sale of third-party financial and insurance products. The company categorizes its automobile dealership business into three key segments, namely, (a) passenger vehicles including luxury vehicles, (b) commercial vehicles, and (c) electric two-wheeler and three-wheeler vehicles. The company has over 70 years of experience in the automobile industry with diversified automobile dealerships and a fully integrated business model. The experience and diversity of the management team along with the long-standing presence of the promoter group has enabled the company to become valued partners of each of their OEMs, thereby giving them a distinct competitive advantage in the industry. Considering the segment revenue in the industry, vehicle sales remain the primary source of income for automotive dealers in India, accounting for 60-70% of their revenue. It is followed by service (regular maintenance and repair), which accounts for 20-25% of their revenue. The sale of accessories and insurance/ finance commission account for the remaining 2-7% (for PVs). As a plan to penetrate deeper into existing markets and expand into new markets through both organic growth and acquisitions, the company has acquired various operations of sizeable spare parts and dealer showrooms over the years.

### Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Repayment and/or pre-payment, in full or part, of certain borrowings, availed by the company and certain of its subsidiaries, namely, PAWL, PMMIL, KGPL, KCPL and PMPL; and
- ⇒ General corporate purposes.

### Investment Rationale

#### A fully integrated business model which leads to business stability & higher margin

The company's diversified automobile dealerships and a fully integrated business model contribute to its position as a leading automobile dealership player in the industry. Apart from benefiting from the inherent synergies arising out of its business verticals, the company's diversified income streams also contribute to higher profitability margins. The company offers fully integrated services through its authorized service centers that contribute to higher-margin business at each of the dealerships and help mitigate the cyclical nature that has historically impacted some elements of the automobile sector. Further, its service centers act as points of renewal for vehicle insurance policies from the second year onwards. The sale of such extended finance and insurance products also helps the company increase its service and spare parts business by building a customer base for future repair work at its locations. The company's emphasis on selling extended service contracts has bolstered its service and repairs vertical in each of the dealerships by ensuring customer stickiness beyond the term of the standard manufacturer warranty period. The company's brand mix, distribution reach, and the complexity of modern vehicles, combined with its investment in trained technicians and advanced facilities and its emphasis on selling extended service contracts and synergies across the business segments and verticals has bolstered its business growth.

#### Consistent track record of profitable financial performance and higher growth

While the growth of the company is driven by the growth of the OEMs, the addition of new OEMs like Bharat Benz, Piaggio, and Ather to the portfolio has benefited the company in recent years. Further expansion of business through an increase in touchpoints across all the states in which the company has an existing presence as well as creating a presence in new states like Maharashtra has contributed to an increase in sales in new geographies. These factors together have led the company to a compounded revenue growth of 65% over FY2021-23 period and an EBITDA growth of 34% over the same period. The company's ability to consistently demonstrate growth in its business has led to a consistent track record of profitable financial performance. The growth in the premium category of passenger vehicles from the existing OEMs has helped the company to expand its business and strengthen growth. Also, the growth in demand for electric vehicles in the Indian market and the increase in production of electric vehicles by the company's OEMs, coupled with the growth in the electric two-wheeler and three-wheeler vehicle sales and services segment has further attributed to the growth of the business.

### Issue Details

Offer Period	12 <sup>th</sup> March 2024 - 14 <sup>th</sup> March 2024
Price Band	Rs. 280 to Rs. 295
Bid Lot	50
Listing	BSE & NSE
Issue Size (no. of shares in mn)	20.39
Issue Size (Rs. in bn)	6.02
Face Value (Rs.)	2

### Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	ICICI Securities Ltd, Nuvama Wealth Management Ltd, Centrum capital Ltd.
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Registrar	Link Intime India Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoters and promoter group	69.45	61.18
Public	30.55	38.82
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

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# Popular Vehicles and Services Ltd.

## Valuation

With expectations of outperforming over the medium term, India's GDP is expected to grow at a CAGR of 6-8% over FY2023-28. Contributing about 7.1% to the country's GDP, the automobile industry is one of the primary contributors to the Indian economy and is one of the largest automobile markets in the world, with annual domestic sales of over 20 million vehicles in FY2023. To support such growth of the industry, dealerships form an intrinsic part of the automobile sector, playing the role of an intermediary between customers and manufacturers. The dealership plays an indispensable role in the overall vehicle supply chain by providing a local vehicle distribution channel based on a contract with an automaker and providing aftermarket space by providing maintenance services and supplying spares/automotive parts and accessories. From the manufacturers' perspective, dealers play the crucial role of retail distribution at regional, city, and local levels, and provide manufacturers with customer insights that are useful in the production planning of manufacturers. As of the latest fiscal, there were around 20,000 dealerships with nearly 70,000 touchpoints (including sub-dealerships, customer outreach centers, and authorized representatives of the dealer) across India catering to customers of two-wheelers, PVs, CVs, three-wheelers, and tractors. Typically, two-wheelers dominate the number of dealerships (with 55-60% share), followed by PVs (~15%) and CVs (8-10%) - three-wheelers and tractors account for the rest. Considering various demand drivers such as growth in new PV sales, rise in average vehicle prices, rising financial penetration and digital technology, we remain positive on the automotive dealership business in India. **On the financial performance front, the company's Revenue/EBITDA/PAT grew at a CAGR of 29.8%/20.7%/40.6% during the FY2021-23 period. On the upper price band, the issue is valued at a P/E of 28.9x based on FY2023 earnings which we feel is fairly valued. We, therefore, recommend a "Subscribe" rating for the issue.**

## Key Risks

- ⇒ The company is subject to the significant influence of its OEMs. The company's top two OEMs i.e., Maruti Suzuki and Tata Motors (commercial), account for more than 80% of the company's consolidated revenue. Therefore, such significant influence of the OEMs and restrictions imposed by them pursuant to the terms of dealership agreements may adversely impact the business, results of operations, financial condition, and prospects, including its ability to expand into new territories and acquire additional dealerships.
- ⇒ A large portion of business operations, which is approximately 96.9% of the company's consolidated revenue, are concentrated in the states of Kerala, Tamil Nadu, and Karnataka. Any adverse developments (including any natural calamities) in these states could have an adverse effect on the business, results of operations, and financial condition.
- ⇒ An increase in competition among automotive dealerships through online and offline marketing reduces the profit margins on vehicle sales and related businesses of the industry, thereby affecting the growth of the company.



# Popular Vehicles and Services Ltd.

## Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
<b>Revenue</b>				
Revenue from Operations	28,935	34,659	48,750	28,350
<b>Total Revenue</b>	<b>28,935</b>	<b>34,659</b>	<b>48,750</b>	<b>28,350</b>
<b>Expenses</b>				
Purchase of Stock in trade	24,574	29,671	41,752	26,413
Changes in inventory	(244)	(504)	(326)	(2,397)
Employee benefit expenses	2,036	2,420	3,082	1,859
Impairment loss on financial assets and contract assets	25	9	31	1
Other expenses	1,054	1,458	2,039	1,163
<b>Total Operating Expenses</b>	<b>27,444</b>	<b>33,055</b>	<b>46,578</b>	<b>27,039</b>
<b>EBITDA</b>	<b>1,491</b>	<b>1,603</b>	<b>2,172</b>	<b>1,311</b>
Depreciation and Amortization expenses	725	693	794	444
Other income	257	183	176	132
<b>EBIT</b>	<b>1,023</b>	<b>1,094</b>	<b>1,554</b>	<b>999</b>
Finance costs	551	609	705	476
Exceptional Item	-	-	-	16
<b>PBT</b>	<b>472</b>	<b>485</b>	<b>849</b>	<b>539</b>
Current tax	100	129	240	151
Deferred Tax charge/ (credit)	48	19	(32)	(13)
<b>Total tax</b>	<b>148</b>	<b>149</b>	<b>208</b>	<b>138</b>
<b>PAT</b>	<b>324</b>	<b>337</b>	<b>641</b>	<b>400</b>
<b>Diluted EPS</b>	<b>5.2</b>	<b>5.4</b>	<b>10.2</b>	<b>6.4</b>

## Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash Flow from operating activities	952	697	1,089	(1,611)
Cash flow from investing activities	(67)	(414)	(796)	(297)
Cash flow from financing activities	(707)	(653)	(238)	1,972
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>178</b>	<b>(369)</b>	<b>54</b>	<b>64</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>375</b>	<b>553</b>	<b>184</b>	<b>238</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>553</b>	<b>184</b>	<b>238</b>	<b>302</b>

Source: RHP, BP Equities Research



# Popular Vehicles and Services Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
<b>Equity and Liabilities</b>				
Equity Share Capital	125	125	125	125
Other Equity	2,335	2,673	3,305	3,717
<b>Total Equity</b>	<b>2,460</b>	<b>2,799</b>	<b>3,430</b>	<b>3,842</b>
<b>Non-Current Liabilities</b>				
Financial Liabilities				
(i)Long term Borrowings	893	881	911	804
(ii)Lease liabilities	2,665	3,570	3,998	4,408
Provisions	48	63	59	61
Deferred tax liabilities (net)	-	-	-	1
Non-current tax liabilities (net)	2	1	2	-
Other non Current liabilities	204	97	-	-
<b>Current Liabilities</b>				
Financial Liabilities				
(i)Short Term Borrowings	2,637	2,839	4,139	6,842
(ii)Lease liabilities	304	270	335	345
(iii)Trade Payable				
Due to micro and small enterprise	2	28	46	33
Due to other than micro and small enterprise	661	841	862	1,677
(iv)Other financial liabilities	157	164	228	224
Current tax liabilities (net)	3	-	12	18
Provisions	36	27	33	29
Other current liabilities	1,115	1,054	981	1,134
<b>Total Current Liabilities</b>	<b>4,916</b>	<b>5,222</b>	<b>6,636</b>	<b>10,302</b>
<b>Total liabilities</b>	<b>8,729</b>	<b>9,834</b>	<b>11,607</b>	<b>15,576</b>
<b>Total Equity and Liabilities</b>	<b>11,189</b>	<b>12,633</b>	<b>15,038</b>	<b>19,418</b>
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	2,244	2,464	2,935	3,094
Capital work in Progress	173	123	77	20
Goodwill	12	12	115	115
Right of Use assets	2,329	3,130	3,480	3,808
Other Intangible Assets	50	39	182	159
Intangible assets under development	-	-	2	6
Deferred tax assets(net)	178	158	161	172
<b>Financial Assets</b>				
(i)Investments	49	44	58	79
(ii)Other financial assets	278	329	379	396
Income tax assets(net)	68	85	98	80
Other non current assets	143	177	193	302
<b>Total Non current assets</b>	<b>5,524</b>	<b>6,562</b>	<b>7,682</b>	<b>8,231</b>
<b>Current Assets</b>				
Inventories	3,117	3,620	4,349	6,746
<b>Financial Assets</b>				
Investments	-	16	2	4
(i)Trade Receivables	1,607	1,766	2,238	2,997
(ii)Cash and cash equivalents	555	184	238	302
(iii)Balances other than cash and cash equivalents	39	20	43	45
(iv)Other financial assets	46	59	45	54
Other current assets	286	391	425	1,039
<b>Total Current Assets</b>	<b>5,650</b>	<b>6,056</b>	<b>7,341</b>	<b>11,187</b>
<b>Non Current assets held for sale</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>-</b>
<b>Total Assets</b>	<b>11,189</b>	<b>12,633</b>	<b>15,038</b>	<b>19,418</b>

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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